

Digging Deeper: Making Sense of Student Loan Debt in Texas

May 2012

Despite recent increases in need-based grant aid, financial barriers to higher education persist. TG estimates that 52,800 bachelor's degrees — roughly equivalent in number to all bachelor's degrees awarded in 2009 by the University of Texas System, the Texas A&M System, and the University of Houston System combined — are lost in Texas annually due to financial barriers.

Many Texas students appear to make choices that reduce their immediate costs or minimize their reliance on student loans, but, simultaneously, decrease their chances of earning a degree. The figure below illustrates this conundrum by laying out hypothetical scenarios in three major elements of college life — affordability, work, and enrollment intensity. These scenarios are ordered on a continuum from high to low probability for promoting graduation.

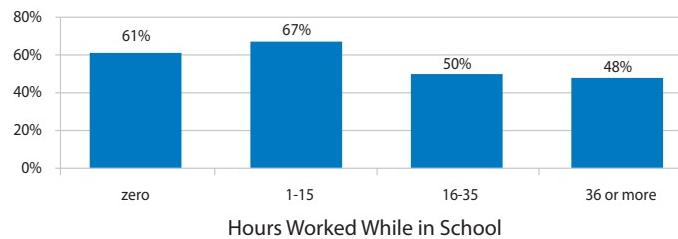
Probability of Graduation and Character of Student Life Continuum

GRADUATION RATES	Affordability		Work	Enrollment
	HIGH	Free tuition and living expenses	Quality College Work-Study	Full time
	↑	Substantial need-based grants	College Work-Study	Full time
	↓	Mostly loans	Part-time off-campus	Part time
	LOW	Need, but no grants or loans	Full-time off-campus	Part time

Students who have part-time employment and are attending school full time can be more engaged in the campus life and, thus, will have a greater likelihood of graduating. On the other end, students who must work full time off campus and enroll in school part time cannot be as engaged in campus life and are less likely to graduate. Less than half of undergraduates who worked 36 or more hours per week while enrolled graduated (within 6 years), compared to about two-thirds of those who worked between one and 15 hours per week.

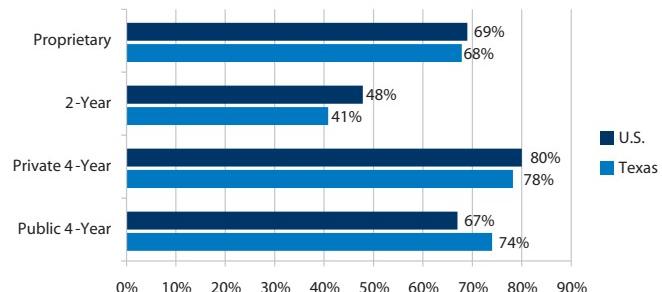
Students shouldering the burden of paying for school, especially those not receiving any student aid, may resort to enrolling part time to cut tuition costs and working longer hours to make more money. These strategies are used more often by students attending community colleges than by students attending other types of schools. They serve to lengthen the time to degree completion, which ends up costing the student more money in the end and offers more opportunity for the student to drop out before completing his or her degree, contributing to the lower graduation rates in the community college sector.

Undergraduate Graduation Rates, U.S.



Source: U.S. Department of Education, NELS (88/2000)

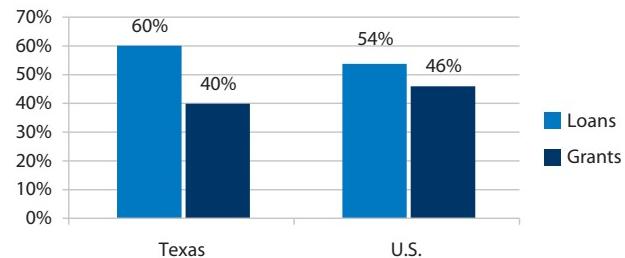
Undergraduate Graduation/Transfer Rates by Sector



Source: U.S. Department of Education, IPEDS, 2010

Texas students rely much more heavily on loans than students nationally, with 60 percent of student aid dollars in Texas coming in the form of loans compared to just 54 percent nationwide. However, only 33 percent of Texas undergraduates borrow loans compared to 39 percent of undergraduates nationwide. This paradoxical finding can be better understood by examining where and how Texas students go to school.

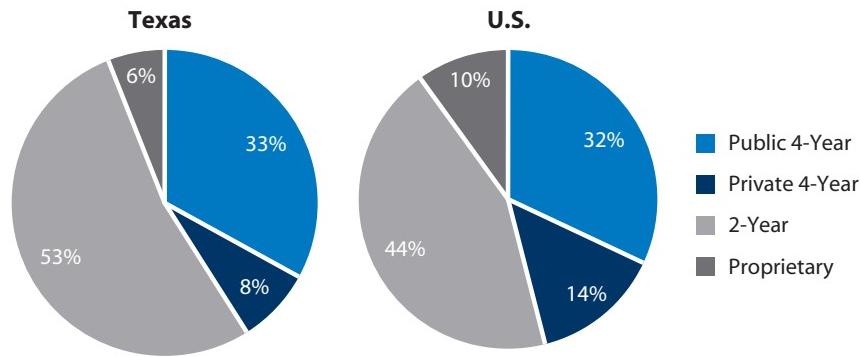
Aid by Source for Texas and the U.S., Award Year 2009-2010



Source: State of Student Aid and Higher Education in Texas, 2011

Texas students are more likely to attend community colleges than students nationally, 53 percent compared to 44 percent. Texas students are also less likely to attend private colleges, with only 6 percent attending private for-profit schools and 8 percent attending private not-for-profit schools compared to 10 percent and 14 percent, respectively, in the U.S.

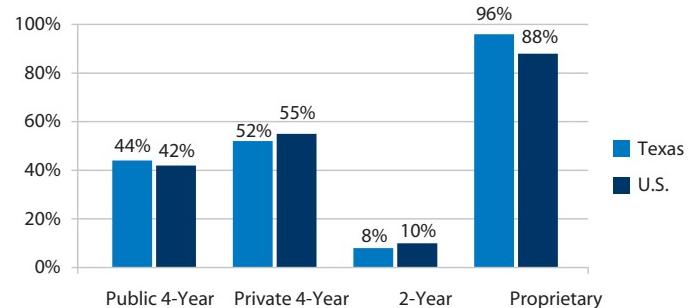
Undergraduate Enrollment by Sector, Texas and U.S.



Source: U.S. Department of Education, NPSAS (2008)

Borrower rates at community colleges are very low, both in Texas and the U.S. Given Texas' reliance on loans, if Texas students were enrolled in the same proportions as their national counterparts, the overall borrower rate would likely be much higher than the national rate. However, Texas ends up with a lower borrower rate than students nationally due to two main factors: 1) a higher proportion of Texas students attend community college than students nationally, and borrower rates among community college students are very low, and 2) a lower proportion of Texas students attend private colleges than students nationally, and borrower rates among these students are much higher.

Undergraduate Borrower Rates by School Sector



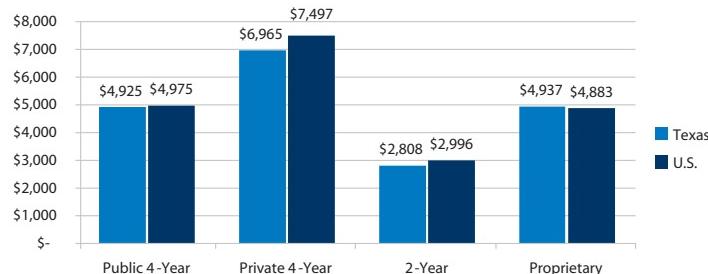
Source: U.S. Department of Education, NPSAS (2008)

Private lenders are the most common source of student loans besides the federal government. They provide student loans that are generally more expensive to borrowers than federal loans due to larger fees and higher, variable, interest rates. While these loans can be helpful for students who have reached their maximum limit of federal loans, students must be careful because borrowing private loans boosts their median debt by thousands of dollars. Students should be aware of their expected earnings after graduation and attempt to live frugally before taking out a private loan, to help ensure that they only borrow what they need.

Loans are a tool to help students afford college, but they do carry certain risks associated with non-payment. Because of these risks, many students are averse to borrowing and opt instead to use other methods to try to cut the cost of school – working longer hours and enrolling in fewer hours – which lead to longer time in school, increase the overall cost of college, and raise the likelihood of dropping out. Loan indebtedness is related to the number of years spent in school, so students attending universities in Texas have, on average, about \$16,000 in loan debt compared to just under \$6,000 in loan debt for students attending shorter programs.

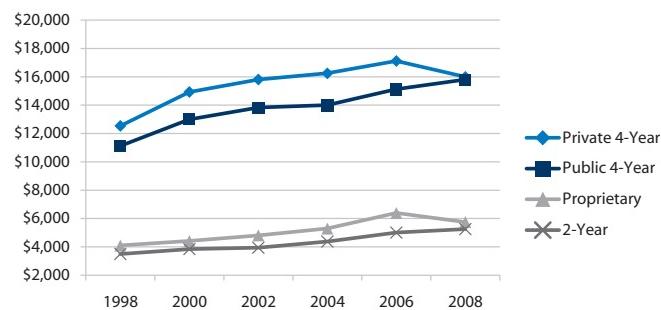
Even though borrower rates and loan amounts at community colleges are low, this sector has some of the highest cohort default rates. Dropping out of school (also known as withdrawal) is a very powerful predictor of default, and working long hours and enrolling part time are risk factors for dropping out of school. Given that students at community colleges are more likely to use these methods than students in other sectors, high cohort default rates are prevalent at Texas community colleges.

Undergraduate Private Loan Median Amount Borrowed



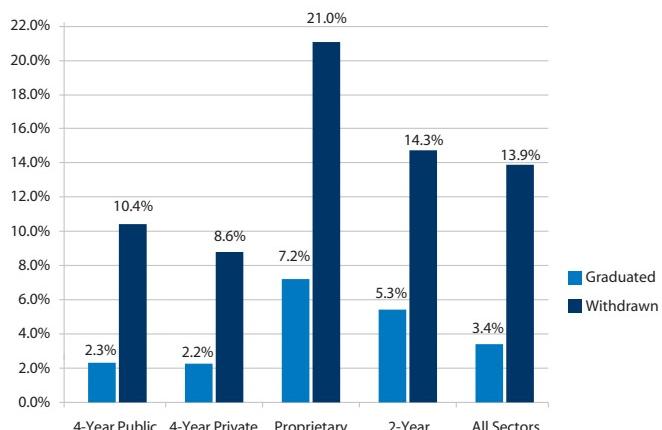
Source: U.S. Department of Education, NPSAS (2008)

MBI by School Sector in Texas



Source: State of Student Aid and Higher Education in Texas, 2010

CDR by Sector and Enrollment Status, Texas Schools



Source: State of Student Aid and Higher Education in Texas, 2011



Student loans are likely to remain a prominent instrument for paying for college in Texas, a necessary financial tool for low- and moderate-income students. As college costs rise and growing enrollments further stretch grant funds, the policy challenge is to assist students in determining the appropriate level of student loans for their individual situation. The process begins with quality college outreach services to high school students. Financial literacy training can help students manage their finances and plan their careers wisely, providing reasonable loan debt and salary expectations. Professional, qualified loan counseling can help students better understand their loan obligations, and a neutral party can advocate on behalf of students and provide essential delinquency and default prevention services to keep them in repayment. Although they carry some risk, student loans are a necessary tool for promoting college access and success, allowing students to enroll full time and work a minimum number of hours. This can enhance the quality of the educational experience and reduce the number of years to degree, saving money for both the student and the state.

SOURCES

- U.S. Department of Education, NPSAS (2008)
- U.S. Department of Education, National Education Longitudinal Study of 1988 (NELS:88/2000)
- U.S. Department of Education, IPEDS (2010)
- State of Student Aid and Higher Education in Texas, 2010 and 2011*

This handout is a snapshot of the November 2010 TG report *Digging Deeper: An Analysis of Student Loan Debt in Texas*, by Melissa Shook, Jeff Webster, and Carla Fletcher. This and other TG reports can be found on TG's corporate website (www.TG.org), including:

- How to Graduate High-Risk Students: Lessons from Successful For-Profit Colleges and Schools in Texas*, June 2010
- State of Student Aid and Higher Education in Texas (SOSA)*, November 2011
- Profile of Minority-Serving Institutions in Texas: A Study of Historically Black Colleges and Universities and Hispanic Serving Institutions*, 2010
- The Toughest Test: The Student Loan Liquidity Crisis of 2007-08 in Texas*, November 2008
- Ready, Willing, and Unable: How Financial Barriers Obstruct Bachelor-degree Attainment in Texas*, December 2006
- Legislative Fact Sheets*, 2011
- School Fact Sheets*, 2011
- Risk Factors for Dropping Out: Comparing the Southwest to the Nation*, 2006
- Risk Factors for Dropping Out: Comparing Texas to the Nation*, 2006
- Risk Factors for Dropping Out: Examining State and Regional Difficulties*, 2006
- Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later*, November 2005
- The Role of Work and Loans in Paying for an Undergraduate Education: Observations from the 2003-2004 National Postsecondary Student Aid Study (NPSAS)*, November 2005

Comments and requests for additional information regarding this report or any of TG's other public policy publications are welcomed. Please direct questions to:

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